



Obstacles and Factors Arising in the Implementation of Islamic Banking Activities in Uzbekistan on the Basis of the Islamic Financial System

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Abstract: In this article, Islamic finance, the Islamic banking system and why it is not yet operating in Uzbekistan, the factors that are the main obstacles to its operation, and the author's comments and suggestions on these factors are highlighted.

Key words: Islamic finance, Islamic banking, commercial banks, interest-free loans.

Introduction

Of course, it is difficult to imagine the world we live in without the economy and financial system. The way we live, the expenses we spend in our daily lives, the expenses we spend throughout our lives are directly related to the economy. Of course, the standard of living of the population in countries with a strong economy and a stable financial system will be much better and at a satisfactory level. But in countries with an unstable economy, the standard of living of the population is low, the level of poverty is high, and the number of unemployed is high. As a reason for this, we can point out that the economic and financial system of such countries does not work satisfactorily, the banking sector is extremely weak, the internal and external economy is sluggish, and several other shortcomings.

The most important part of the country's economy is the banking sector. Central and commercial banks provide their services to the country's population and earn profit for these services. The main benefit of commercial banks is interest loans provided to individuals and legal entities. A certain part of these loans is definitely beneficial for the state. However, the return of such loans to banks with interest causes some concern for individuals and legal entities. For this reason, many countries have been applying Islamic finance and Islamic banking to their economic system in order to save the population from difficulties. The main goal of Islamic finance is to provide the population with a correct and honest economic system. Islamic finance does not consider the services of commercial banks as correct and honest, especially the services provided on interest. For this reason, unlike commercial banks, Islamic banking systems do not provide services for interest. This is convenient for consumers in every way.

Islamic teachings differ from secular science in many ways. At the same time, views, concepts, even in exactly similar directions, may have different content. Take Islamic finance alone. Although it gives the impression of being part of the global financial system, in fact, both of them are fundamentally different from each other.

Since there are not so many researches and scientific researches in this regard in our country, this term is a new concept for most of us. But in recent years, the number of people interested in Islamic finance, which has already developed, is increasing among our youth. In the address of the President of the Republic of Uzbekistan Sh. Mirziyoyev to the Oliy Majlis on December 29, 2020, "it is time

to create a legal framework for the introduction of Islamic financial services in our country. Experts from the Islamic Development Bank and other international financial organizations will be involved in this,” his words were a prelude to the long-awaited changes in this regard. [1]

Methodology

The Islamic financial system envisages profit and loss sharing and financing based on real assets. Unlike the modern banking system, profit in it is based on partnership. That is, depending on the client’s demand and the type of financial products, the bank can deliver equipment, goods, raw materials or rent them. This financing is based on sales practice. Therefore, the bank and the borrower have equal rights in the success and efficiency of the project and become interested partners in both profit and loss.

Islamic finance has gone through 7 periods of development until today. In the first formative period (622-661 years), the principles of Islamic finance were used by the Arabs living in the Arabian Peninsula. Even Prophet Muhammad (pbuh) traded according to these principles before his revelation. Their first wife, our mother Khadija, traveled to the country of Sham (now Syria) with her goods to trade. They hired assistants based on a profit-sharing contract. [2] In Islam, this type of contract, called “mudaraba”, is still used today. Also, during this period, musharakah (another contract based on the distribution of profits), zarraflik (the practice of exchanging different currency units), murabaha (trade), representative contracts (transferring a debt from one person to another) were developed. At the same time, financial relations based on riba, i.e. interest, were on the rise at that time. After the revelation to our Prophet Muhammad (pbuh), first of all, the use of riba was prohibited. In the remaining periods, Islamic finance continued to develop and stabilize. Even today, Islamic finance continues to develop. At the same time, we can see the research of many scientists in this system. [3,4]

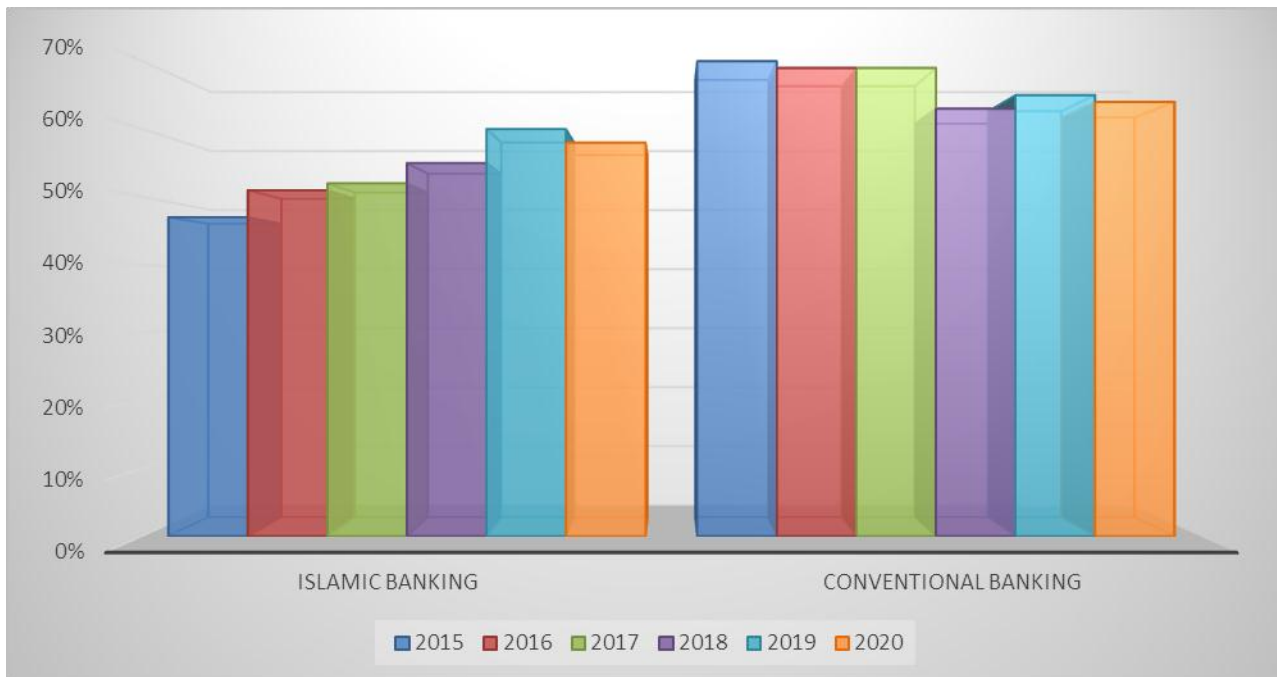
Growth over the past few years continues to create optimism for the future of Islamic banking. But with increasing competition and early warning signs that growth is slowing, Islamic financial institutions have a lot to do. Whether the strategy is to focus on target positioning, compete head-to-head with conventional banks, or a mix of the two, sustainable growth will require Islamic banks to achieve greater efficiency across the value chain.

Islamic banks that take the time now to consider strategic choices and review operational frameworks will be in a stronger position to capture untapped market opportunities and embrace the changing dynamics of their industry

Results and analysis

If we see the Islamic financial system in numbers, we can witness that these numbers are growing over the years. In particular, more than 1,500 Islamic banks around the world provide services to consumers. Islamic banks are distributed in more than 80 countries around the world. The most surprising thing is that even in non-Islamic countries, Islamic bankers are providing their services. But it is a pity that such Islamic banks still do not exist in some Muslim countries. More than 90 percent of the population of Uzbekistan alone is Muslims. But there are no Islamic banks in Uzbekistan. And the people of the country need Islamic banking services. At the same time that the countries of the world are trying to transform the financial system into an Islamic financial system, we hope that Uzbekistan will also change its financial system to the most optimal way.

In the graph below, we can see to what extent the countries accept the Islamic banking system and the commercial banking system and use its services.



Picture 1. Access indicators of Islamic and traditional banks¹

In the above picture, we can see the step-by-step usage of Islamic banks and at the same time the usage indicators of commercial banks are compared. From 2015 to 2019, the rate of access to Islamic banks increased year by year. That is, in 2015 it was 47%, and by 2019 this indicator was 60%. In 2020, this indicator decreased to an insignificant level. The penetration rates of commercial banks decreased from 2015 to 2020. In short, this indicator, which showed 70% in 2015, reached 64% by 2020. This proves that Islamic banking penetration rates around the world are more effective than conventional banks.

Discussion

Therefore, taking into account the differences between Islamic banks and commercial banks, many countries are considering measures to expand the activities of Islamic banks in their territory. The reason for this is that Islamic banks are the most convenient for the people and most importantly, they are halal and provide interest-free services. This is convenient for consumers in every way. We hope that Islamic banks will start operating in Uzbekistan in the near future. For this, we need enough researchers and scientists in our country on the Islamic financial system. Before launching the activity of Islamic banking, it is necessary to take measures not to stop the activities of traditional banks. Because several tens of thousands of employees work in these banks.

Currently, Islamic banks are developing not only in Muslim countries, but also in countries where the Muslim population is 5 percent. The Islamic Development Bank, a major specialized structure of the Organization of Islamic Cooperation, which started its work in 1975, provides financing in many countries of the world. Uzbekistan's cooperation with this organization began in 1991. At that time, the Islamic Development Bank allocated grants for the reconstruction of a number of historical monuments in the city of Bukhara. These cooperation relations have been developing year by year. Uzbekistan became a full member of the Organization of Islamic Cooperation in 1996 and the Islamic Development Bank in 2003. Three years ago, the Islamic Development Bank and the Government of Uzbekistan signed a cooperation strategy for the allocation of 1.3 billion US dollars for 2018-2021. It was determined that the financing implemented on the basis of this strategy will cover all spheres of the country's life, in particular, agriculture, house and road construction, education and other sectors. Today, strong cooperative relations with Islamic organizations have been established in our country, but Islamic financial service is a relatively new direction for us. From a practical point of view, it can be seen that the organization of Islamic financial services is

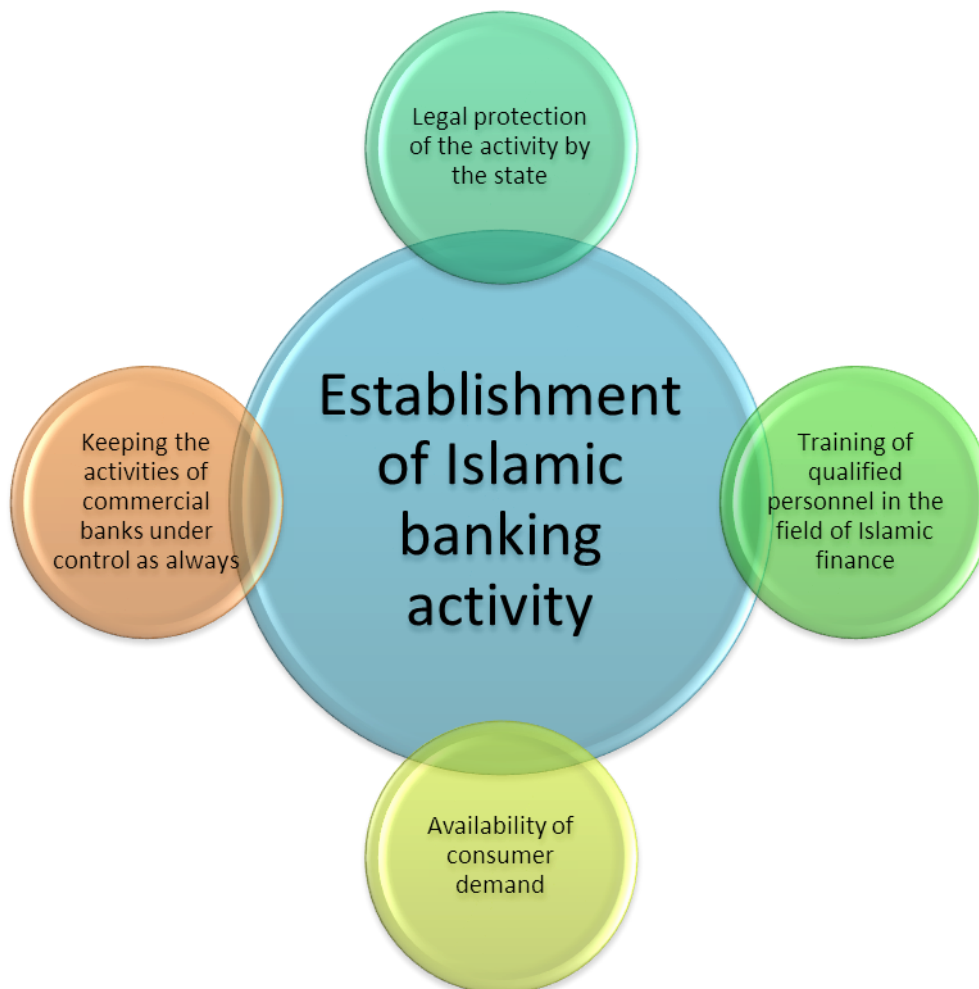
¹ <https://www.mordorintelligence.com/industry-reports/global-islamic-finance-market>

becoming a necessity in our country. That's why people's wishes are different when it comes to banking services and getting a loan. The introduction of Islamic finance increases people's choices.

In conclusion

In conclusion, taking into account all the factors that will be faced in the establishment of Islamic banking, and after studying these factors sufficiently, and only after that, this system will be beneficial for all parties. Establishing, expanding and stabilizing the activity of Islamic banking, taking into account the needs and demands of the consumer and the service provider, is of great importance today. Taking into account the above, the establishment of the Islamic banking system is important and necessary for the people of Uzbekistan.

It should be emphasized that the following factors should be studied when establishing the Islamic bank.



Picture 2. Factors in establishing Islamic banking.

In the picture above, we can see that in order to start the activity of Islamic banking, it is necessary to study the demand of consumers first of all. At the next stage, this activity will have to be legally protected by the state. In the third stage, it is envisaged to keep the operating traditional banks under control, that is, to control the regular use of the services of commercial banks by consumers and to prevent the risk of closure of commercial banks. And, of course, the establishment of Islamic banking requires personnel with sufficient knowledge and skills in the field of Islamic finance. Taking these factors into account and studying these factors, the first steps will be taken to establish Islamic banking in Uzbekistan.

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